

**Statement of
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**Before the
Senate Committee on Commerce, Science, and Transportation**

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Thank you for this opportunity to testify on the importance of the Jones Act to America's shipbuilding industrial base, and to our Nation's ability to project Sea Power around the globe. The American Shipbuilding Association (ASA) represents America's principle shipbuilders. We employ over 90 percent of all workers engaged in ship construction in the United States; we are the largest private employers in five states; and we procure equipment and systems from companies in 47 states. A membership list is attached to my statement.

Shipbuilding is a vital and dynamic industry that propels all segments of our economy. From the coal mines, to the steel mills, to electronic and computer houses, shipbuilding stimulates economic growth and hundreds of thousands of jobs in low, medium, and the most advanced technology businesses across America. This is precisely why foreign governments target shipbuilding as the means to grow their own economies.

American shipbuilders build the most technologically advanced ships in the world. ASA shipyards have delivered 1,142 naval ships, and 976 large oceangoing commercial ships throughout their corporate histories. It is this combination of commercial and naval orders that has, and continues to sustain the shipbuilding industrial base of the United States.

Shipbuilding is a cyclical business. When naval shipbuilding orders wane, we look to an upturn in commercial demand, and vice versa. The loss of either of these markets would devastate this industry.

In the 1980's, the international commercial market for U.S.

shipbuilders collapsed. This collapse occurred because the U.S. Government unilaterally terminated its commercial shipbuilding subsidy program while foreign governments increased theirs. During this same period, the U.S. embarked upon one of the largest naval build-ups in our Nation's peacetime history. This increase in naval orders helped to cushion the collapse in the commercial market.

However, today, the U.S. Navy is ordering the smallest number of naval ships since the Great Depression. The Navy's orders have averaged only six ships per year since 1994. At this build rate, our naval fleet will shrink to under 200 ships -- well below the stated military requirement of 300-plus ships. This build rate -- which is driven not by requirements, but by budgets -- will neither sustain the core defense shipbuilding base, nor provide America with the Sea Power it needs to deter or win wars.

The Assistant Secretary of the Navy, John Douglass, recently wrote to this committee, and I quote: "It is extremely critical for American shipbuilders to build commercial ships for the Jones Act trade if the core defense industrial base is to be sustained to meet future Navy requirements."

American shipbuilders are doing just that. With many ships in the Jones Act fleet reaching the end of their useful lives, and with the environmental construction standards of double-hulls imposed by the Oil Pollution Act of 1990, orders for Jones Act ships are on the rise. Since 1994, ASA shipbuilders have built or taken orders for 15 double-hulled oceangoing tankers for the Jones Act, and more orders are expected to be announced soon. Over the next 12 years, an estimated 40 double hulled

tankers will be built, and replacement orders for approximately 34 dry cargo ships are expected to be placed with American yards. These orders will help to offset the decline in naval orders, reduce the costs of naval ships, and keep America's warship builders in business today to meet the Sea Power requirements of our Nation tomorrow.

The American Shipbuilding Association opposes S. 2390 -- which would repeal the U.S.-build requirement of the Jones Act for bulk cargo. If enacted, this bill would drive yet another stake in the heart of this vital American industry. I assume the motivation behind Senator Brownback's bill is that ships built in Asia are cheaper, and thus, cheaper ships may possibly result in lower freight rates for grain, oil, and forest products.

The question before this Committee is: Are basement prices really a bargain for America? Is a potential reduction in freight rates for one sector really worth the sacrifice of the American shipbuilding industry? And, what will happen to those Asian prices, and freight rates, in the future when there is no competition? A review of the history of abuses of monopolies and anti-trust laws in the United States will provide a resounding rhetorical answer.

Ships are cheaper in Asia -- but there is a haunting reason why. Japanese and South Korean shipbuilders have long engaged in dumping - or selling ships below their cost of production -- not to mention China, which is now targeting shipbuilding. In the mid 1990's, South Korean shipbuilders doubled their capacity when there was already excess world capacity. To fill this added capacity, South Korean shipbuilders slashed their prices

leading to defaults on their bank loans. Just one shipyard, Halla, will receive a \$1 billion bailout through the International Monetary Fund. This public bailout comes on the heels of a \$732 million bailout of Daewoo shipbuilding by the South Korean Government. Asian ship prices are plummeting even further due to the present currency exchange rate in the midst of the Asian financial crisis. In effect, through these bailouts, the United States is rewarding and subsidizing the very foreign companies that engage in predatory trade practices to the detriment of American shipbuilders.

The other issue before this Committee concerns the construction quality and safety demanded by American citizens of the ships that operate in our coastal waters. These safety requirements are reflected in the construction standards imposed upon U.S. shipbuilders by the U.S. Coast Guard. American ships are the safest in the world. The double hulled tankers Avondale Industries in Louisiana is building for Arco, for example, will be the most environmentally safe ships to have ever been built. They will not only be outfitted with double hulls, but they will have independent engine rooms, redundant propulsion and twin steering systems, and the most advanced navigation systems. By contrast, the hulls of 10-year old tankers built in Japan are cracking and represent potential environmental calamities of the highest magnitude. Quite simply, better quality demands a higher price, which is the lowest price for environmentally safe ships.

The Jones Act is the only market in the world that is not distorted by foreign dumping and subsidy practices. Construction of ships for the Jones Act offers unsubsidized American shipbuilders the only market where they can

compete fairly against each other rather than against foreign governments. American shipbuilders are essential to the defense of America and to the free world. The naval ships we build patrol the seas far from America's shores ensuring safe passage for grain, oil, and other commodities of export trade, and they are the first force called upon to respond to a crisis. This industry is truly a national asset. It has fought our wars and it has ensured the freedom and prosperity of all Americans, and the Jones Act has helped make all of this possible.

We all want to see every sector of the American economy prosper. But prosperity for one sector should never come at the expense of another. Surely, there is another way.

Just holding this hearing today on S. 2390 jeopardizes desperately needed shipbuilding contracts for American shipbuilders. No investor is going to place a contract with a U.S. shipyard if he or she believes that the U.S. Senate is going to change the law governing the rules of competition in the Jones Act trade. This uncertainty -- this hearing -- not only delays the award of Jones Act shipbuilding contracts, but it also jeopardizes the survival of the defense shipbuilding industrial base of the United States.

Ladies and gentlemen, Members of the Senate, I ask you today to declare your unequivocal support of the American shipbuilding industry. I urge you to proclaim your unwavering commitment to the U.S.-build requirement of the Jones Act so that we can continue building the safest ships in the world, creating highly skilled jobs, and ensuring that we continue to build the finest naval ships in the world to defend America's security and economic

interests around the globe. American shipbuilders deserve much, much more than this -- but this is all we ask. Thank you.